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From: CINCEUR Berlin Germany PERSONAL from Clay

To: Dept of Army PERSONAL for Draper

Nr: CC 7529

23 January 1949

It looks as if French Military Government has finally succeeded in that apparently anatomical impossibility of making the tail wag the dog. It has discovered that by protest it can stop the adoption of bizonal economic legislation, appealing if necessary to additional delay for an inter-governmental conference. As a result, legislative progress in the bizonal economic council has almost ended. This is having an appreciable and increasingly adverse effect on morale. In fact, the French are thus able to stop legislation much more effectively now than they could under trizonal fusion in which it has been agreed that a majority voice will be decisive. The British are for the moment unwilling to risk French displeasure and frequently team up with the French. This, I think, has resulted from British opposition to reparations policy recommended by ECA and their desire to have French support to use restriction on industry to reduce competition with British industry. I am afraid that the results are that bizonal German administration is fast becoming a farce.

As you know, the French have protested the bizonal patent law. They have not withdrawn their protest in spite of our expressed willingness to require the implementing regulations to be approved by military government and to discuss such regulation with them before approval. They now demand that this matter be held in abeyance pending an inter-governmental conference on German patents which is to be held in Paris shortly. I have not been advised that our government has consented to such a conference. However, even if it has so consented I do not believe that the approval of the present patent law should be deferred and I would urge that our government approach the British to obtain British agreement to proceeding in the bizonal area on the lines approved by our

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government. I believe this matter to be urgent. Recently one of our prominent chemical engineers stated in New York that the principal deterrent to German recovery in the chemical industry was lack of patent protection. I feel definitely that the postponement of the patent law will be at the expense of the United States. Moreover, its disapproval will provide ideal fuel for Communist propaganda to show the intent of the Western Allies to exploit and keep possession of Germany's patents and trade processes.

Moreover, the patent law is only one of several issues in the same status. The French have protested approval of the first equalization law as amended to meet the views of our government, and are insisting that we defer approval of this law. In view of the great interest of the trade unions, deferment of this measure will again be interpreted as anti-trade unionism on our part. I have not yet obtained British views as to proceeding without French acquiescence. However, I propose to urge the British to join us in approving the amended law regardless of French protests.

I might add that the French protest is largely on the ground that neither the bizonal economic council, nor in fact any central legislative body, should have the right to legislate and control relief measures.

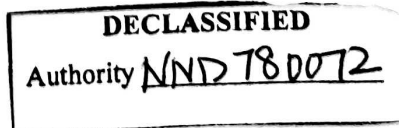
Also a measure passed recently by the bizonal economic council with strong support from the trade unions provides for collective agreements reached by collective bargaining to be legally binding on the parties concerned. It is most desirable legislation, but again the French have protested its approval for the bizonal area because in their view such a question should be left entirely to the individual states. This is of course carrying federalism to the extreme.

In addition the trade union leaders have called for an early conference to discuss a trizonal federation of trade unions. We have always favored such a federation which has been an accepted fact on a zonal basis in both the US and British zones for many months. A few of the trade unions in

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the British and American zones have already amalgamated. However, the federation of trade unions has not as yet been placed on a bizonal basis. The French now insist that trade unions should be allowed to federate only at the state level. Obviously there could be no more damaging ruling to the trade unions. I do not propose to accede to the French request. However, the French will deny permission to their zonal labor leaders to attend the conference. It will have to devote itself to the question of federation of trade unions in the bizonal area.

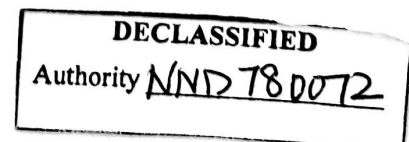
I think you will realize the problem now facing us. The French have found that through appeal and the establishment of inter-governmental conferences they can delay measures necessary to the recovery of Germany. I can not help but feel that the purpose is to retard German recovery. Since this can only be done at our expense, it seems inconsistent with our overall German problem. I would appreciate your views with respect to these several matters and to the general problem soonest so that I may know how to approach my British opposite in trying to develop a joint course of action. I want you to know that for the moment we have completely lost control of the situation here in Germany and that we shall soon begin to see the effects of this loss of control both politically and economically. It can not be regained if matters of this type are to be always considered at governmental level in joint conferences because the time lag is too great to permit progress.

I feel very strongly that these tactics are defeating the financial and economic position which we assumed to protect our financial support of all three zones. The French receive material help for the French zone from the bizonal area where we underwrite the deficit and from ECA, and at the same time delay trizonal fusion and insist on no action in bizonal area which is contrary to their views. Frankly, I am beginning to wonder if we are right in supporting all three zones under the circumstances. I feel certain that we are losing ground

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politically in Germany and that the purpose of our huge expenditures to support Western Germany is being negated rapidly. I am not at all sure that we should continue financial aid as British and French policies in Germany are made possible only by our financial support. If we withdrew this support, economic necessity would force British and French policies more nearly approaching our own as they could not maintain an occupation in chaos. I can not over-emphasize the seriousness of the present situation nor the extent to which we have lost control.

End.

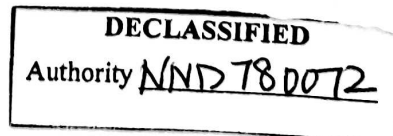
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